



Financial Affairs Committee

August 25, 1999

1) Opening Business

The meeting was held at ACWA's Office in Sacramento and began at 9:30 a.m.

The next Financial Affairs Committee meeting is scheduled for Friday, September 17, 1999 and will be held at the ACWA office in Sacramento, 910 "K" Street, Suite 100. The meeting will begin at 9:30 a.m.

Alan Thompson, EBMUD, has volunteered to host the October FAC meeting. The meeting is tentatively scheduled for Wednesday October 27, 1999 at McLean Hall at Pardee Reservoir with a tour of the Mokelumne River fish hatchery facilities in the afternoon. Additional details will be made available at the September 17th FAC meeting.

2) Reclamation Issues

a) Update on water accounting program (RAIN)

Jim Bjornsen, Reclamation, commented that the software development contract with PCS has been terminated. Reclamation is actively recruiting for a new software development contractor to assist in the completion and implementation of the RAIN water accounting program. Jim noted that the search has been narrowed down to one preferred candidate. Pending approval, the new software developer should begin work shortly.

b) Update on 2000 water rates

Jim Bjornsen, Reclamation, noted that the preliminary 2000 water rates are expected to be released on schedule on October 1, 1999. The October 1st release will begin a 60 day review period, after which time the rates will become final. Reclamation is still working on the responses to the questions regarding the 2000 water rates submitted by the CVPWA. At this time, Jim does not anticipate any reduction to the FY 2000 budget estimates used in preparation of the rates. Assuming no changes, this would mean an estimated increase in the irrigation storage and water marketing water rates for 2000 of \$0.68 (15%) and \$0.87 (19%) an acre-foot, respectively, compared to the 1999 rates. M&I would actually experience an estimated decrease in its storage rate (\$0.11 an AF, 1%) and an estimated increase in its water marketing rate of \$0.33 (6%) an acre foot.¹

¹ Rate per acre-foot amounts were computed using the 5-year average deliveries from the 1999 Rate Books, which reflect actual deliveries for the period 1993-1997. In computing the 2000 rates, Reclamation will update the 5-year average deliveries to reflect the period 1994-1998. The rates reflected above are estimates only.

Jim also noted that Schedule A-9 of the 2000 Rate Books will breakdown the water marketing component into five or six subcategories in an effort to provide the water contractors with additional information regarding its composition.

c) Update on 1998 contractor accountings

Jim Bjornsen, Reclamation, commented that the 1998 contractor accountings have been released. The contractors have been sent letters notifying them of their net results of operation for the year. Contractors with refundable surpluses have an opportunity to direct Reclamation as to the application (i.e., refund to the District, apply toward historical deficit, apply toward capital repayment, or apply toward next year's water purchases). Contractors who incurred an annual deficit have 30 days within which to make a voluntary payment to avoid interest charges from accruing on the outstanding balance.

Ron Jacobsma, FWUA, commented that the Friant contractors who took both Class 1 and Class 2 water in 1998 experienced an annual surplus on their Class 1 water, but experienced an annual deficit on their Class 2 water. Brice Bledsoe, CVPWA, and Jesus Reynoso, Reclamation, will examine the underlying data to determine the reason for this disparity.

d) Dates for FY 2002 Budget Workshops

Reclamation will hold a budget workshop to review the FY 2002 activity plans for the Friant, Delta, West San Joaquin, San Felipe, and San Joaquin Divisions on Wednesday, September, 8, 1999, from 9:30 a.m. to 12:30 p.m. at the South-Central California Area Office in Fresno.

Additional Area Office budget workshops and a Mid-Pacific Region budget workshop are planned for September/October. The dates and times for these workshops are pending.

e) Other

1998 O&M Costs Allocated to the Cross-Valley Contractors – Ron Jacobsma, FWUA, voiced concern on the part of the CV contractors as to the magnitude of the O&M expense allocated to them in FY 1998. Brice Bledsoe, CVPWA, and Jesus Reynoso, Reclamation, will review the CV allocated O&M expense to determine the nature of the expenditures and whether or not the allocation appears equitable. Of possible concern is the treatment used to allocate the 1998 installment of the Historical PUE True-up Adjustment.

Accounting for State Pumping Plant PUE for CVC and In-lieu Pumping – Ron Jacobsma, FWUA, commented that the direct billing invoices submitted to SLDMWA by Reclamation for PUE costs associated with pumping CV and CVP water at the State's Banks Pumping Plant need to provide sufficient detail so as to allow the SLDMWA to split these costs between PUE costs assignable to Tracy versus those assignable to O'Neil and subsequently billed out to the applicable contractors. Tona Mederios, SLDMWA, and Ron will work together with Reclamation to develop the necessary information and allocation plan.

3) Presentation on Reclamation's Post 2004 PUE Operations-Options Analysis Workgroup

The Workgroup was established to develop options for meeting PUE requirements after 2004 when the current PG&E Integration contract expires. The Workgroup consists of representatives from the CVP water and power customers, Reclamation, Fish & Wildlife, and Western.

Among other things, the current Integration contract provides a mechanism for meeting the hourly imbalances between project generation and project pumping energy requirements. Currently, PG&E covers any hourly imbalances between generation and project use load. If energy purchases are required to meet these hourly imbalances, the associated costs are paid for by the Preference Power Users. In return, CVP generation is shaped, taking into consideration various operating and environmental constraints, to provide more valuable on-peak energy to the Preference Power Users.

It is not expected that PG&E will renew the Integration contract after 2004. At issue, are how the hourly PUE imbalances will be met and how the associated costs will be shared/allocated between PUE and Preference Power.

Martin Bauer, Reclamation, provided an update on the Workgroup's progress. Three options have been developed by the Workgroup and are being evaluated. See the enclosed handout for a summary of the options. The Workgroup anticipates completing its analysis and providing Reclamation with a recommended solution by December 1999.

Other: On a related matter, Martin requested that a meeting be held as soon as possible between representatives of the water contractors and Reclamation to discuss the current procedures for direct billing the three Authorities for PUE under the O&M Self-funding agreements. Martin commented that Reclamation is concerned that the current process may prove to be an administrative burden and that Reclamation would like to see if a less burdensome alternative is available. Brice Bledsoe, CVPWA, will work with Janice Bartlett, Reclamation, to coordinate a meeting.

4) Update on Trinity PUD In-lieu Property Tax Issue

Brice Bledsoe, CVPWA, commented that Trinity PUD's efforts to have appropriations language added to the FY 2000 Water and Related Resources budget was unsuccessful. The proposed language would have increased the amount of the annual in-lieu tax payment from \$25,000 to over \$500,000. The annual payment was anticipated to be allocated 25% to water and 75% to Preference Power as an annual O&M expense. The CVPWA will be meeting with Rick Coleman, Trinity PUD, in the near future to further discuss this issue. Any proposed solution will entail input and acceptance from the CVP power community.

5) Warren Act Reform Legislation

Ron Jacobsma, FWUA, noted that Reclamation has received the Family Farm Alliance's (FFA) draft legislative proposal and has released a counter proposal (for a copy of Reclamation's proposal, contact Brice Bledsoe, CVPWA, at 916-448-1638). The differences between the FFA and Reclamation proposals are as follows:

- The Reclamation proposal does not cover Section 215 water

- The Reclamation proposal does not allow the contractors to have input on who and when Warren Act contracts are made (no veto power)
- The Reclamation proposal contains no mention of a consultation process between the contractors and Reclamation
- The Reclamation proposal allows for Warren Act contracts to be executed for terms of up to 40 years

Both the Reclamation and FFA proposals meet the primary objective of the Reform legislation of restoring the crediting of Warren Act revenues toward project repayment. The only difference being that the Reclamation proposal provides that the capital component of the Warren Act payment would only be available as a "Tail End" credit (meaning that the capital component of the payment would only be available for project repayment toward the end of the project repayment period as needed to cover contractor shortfalls). Of course Restoration Fund payments associated with Warren Act deliveries would continue to be covered into the Restoration Fund, and the interest component associated with RRA payments on excess lands would continue to be covered into the Treasury. Interest on the capital portion for M&I and excess lands being applied to the Treasury was questioned, in that it could result in the U.S. reaping a dual interest payment on the outstanding capital balance.

The FFA is working on a comparative paper outlining in detail the differences and similarities noted above. Reclamation and the FFA hope to reach compromise on the Reform legislation and propose it to Congress in September 1999. If enacted, the Reform legislation would replace (not amend) the existing Warren Act.

There was a brief discussion regarding the CVPWA's participation in funding a lobbying effort for the Warren Act Reform legislation. It was decided that the funding decision will be delayed until after the final proposal is developed.

5) CVP Cost Reallocation Issues – Brice Bledsoe, CVPWA

There was a brief discussion of the joint water and power comment letter on the GAO-proposed cost allocation methodology and a letter requesting a 30 day extension to the August 16, 1999 deadline for submission of a contractor proposed alternative. For a copy of these letters, contact Brice Bledsoe, CVPWA, at 916-448-1638.

The cost allocation subcommittee has received policy direction related to its draft cost allocation strategies. Based on this direction, the subcommittee will attempt to resolve the water and power contractor cost allocation issues outlined in the May 19, 1999 joint water and power contractor comment letter to Reclamation within the current cost allocation framework (with consideration given to the GAO-proposed method as warranted). A new cost allocation study will not be actively pursued at the present time, pending the outcome of the current effort.

The current approach contains two components:

- GAO-proposed methodology – The Subcommittee will engage Reclamation to resolve the issues and implement the proposed solutions outlined in the August 13, 1999 joint water and power comment letter. Reclamation must include the GAO-proposed methodology in their final report; therefore, it is imperative that the water and power contractors put the best possible face on it. Although not probable, the GAO-proposed methodology is still under consideration as the vehicle of choice for resolving our outstanding cost allocation issues.

- Refinements to the existing methodology – In developing the 1995 Baseline cost allocation, Reclamation performed a detailed review the existing CVP cost allocation methodology (based on SCRB principles). In doing so, Reclamation made significant changes to the existing methodology. While the changes made appear to have redressed past computational errors and implemented various legislative act and policy directives, there is still the need to further refine the existing methodology. Further refinement is required if the existing allocation is to serve as an equitable allocation of CVP costs until such time as a new study can be performed.

The Subcommittee will develop a proposed cost allocation based on the existing methodology. The proposal will seek to further refine the existing cost allocation methodology to ensure that it provides for an equitable allocation of CVP costs. The current deadline for submission of the proposal is September 15, 1999. The primary issues of concern are the increased value of the project to flood control and to environmental enhancement and the need to reflect this increased value in the allocation of project costs. Various other cost allocation and repayment issues will also be addressed in the proposal.

After the proposal is submitted, the Subcommittee will engage Reclamation to work out any technical issues surrounding the proposed refinements. The Subcommittee will also work with Reclamation to develop evaluation criteria for evaluating all proposals (currently there are three: the GAO, the Baseline, and the forthcoming contractor proposal), and will assist Reclamation in developing the format for the final report. Reclamation's current deadline for completion of the cost reallocation study is November 1999.

There being no further business, the meeting was adjourned.